

AR61

Winspear Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

1998 annual report

clearly

your best choice



Gimbel Vision International Inc.

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Gimbel Vision International Inc.





## CORPORATE PROFILE

Gimbel Vision International Inc. (the Company) is a public company that owns or is partnered with eye surgery centres across North and South America, East Asia and China. Refractive laser eye surgery is performed at all the Company's centres. The Company grants its business partners the use of the Gimbel name and Care Track™ systems for eye surgery services. Through its strategic alliance with Gimbel Eye Centre's management company, I Care Services Ltd., the Company provides ophthalmic practitioners with access to a wide range of professional support including physician and staff training, management of clinical and surgical operations, marketing, patient education, and other consultation services.

Gimbel Vision International Inc. is listed on the Alberta Stock Exchange and trades under the symbol 'GBV'.

## CORPORATE VISION STATEMENT

The Company will create value through the development of successful and innovative ophthalmic surgery centres of choice.

## CORPORATE VALUE STATEMENT

Honesty and integrity are keystones to the way the Company conducts business. Competent, compassionate and convenient service are central in the delivery of our patient care. Excellence and constant innovation drive our medical and business development.

## financial highlights

	1998	1997
Revenue	\$ 20,848,118	\$ 14,929,924
Earnings from continuing operations	899,304	1,288,101
Net earnings	2,345	1,011,564
Cash provided by continuing operations	2,542,238	1,821,362
Working capital	726,681	(416,052)
Shareholder's equity	5,170,405	3,596,369
Debt to equity Ratio	0.82	1.01
Number of equity shares at year end	22,710,855	20,043,850
Earnings per share from continuing operations*	\$ 0.04	\$ 0.06
Net earnings per share*	\$ 0.00	\$ 0.05
Cash flow per share from continuing operations*	\$ 0.11	\$ 0.09
Book value per share*	\$ 0.23	\$ 0.18
* weighted average number of shares used in calculation	22,352,773	20,000,196





**Glenn Gimbel**  
PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

**1998 was a year of refocusing and restructuring for Gimbel Vision. In spite of this, we delivered strong financial and operating results and achieved record volumes for the number of refractive procedures performed at our centres worldwide.**

To say that 1998 was a year of challenge somewhat understates the case. This past year, we set in motion significant management and operational changes that have positioned Gimbel Vision for growth and success in 1999 and beyond.

During this evolutionary and difficult year, we still maintained our record of positive cash flow and profitability. Revenues from continuing operations were \$20,848,118, a 40 percent increase from 1997. Cash provided from continuing operations rose to \$2,542,238, a 40 percent increase from the previous year. Earnings from continuing operations were \$899,304 and after an \$869,959 charge to earnings for the loss from discontinued operations, net earnings still remained positive at \$2,345. These results are positive proof of Gimbel Vision's financial health and continued leadership in the provision of state of the art vision correction services.

## **NEW VISION FOR A NEW ERA**

This is a new day at Gimbel Vision. We have a new management team, an expanded outlook, and a renewed commitment to all our stakeholders. We have reaffirmed our commitment to putting patients first – and with our renewed vision in place, I am excited about our opportunities for the future.

## **NEW LEADERSHIP**

To further hone our intrinsic competitive advantages and to ensure the success of our renewed vision, Gimbel Vision introduced a new management team in 1998. In addition to my appointment as President and CEO of Gimbel Vision, our new team includes:

- **Karen Gimbel – Vice President, Public Affairs**
- **Georgina Godfrey – Vice President, International Operations**
- **Robert Millar – Vice President, Corporate Development**
- **Annette Stanwick – Vice President, Medical Affairs**
- **Janelle Weller – Vice President, Canadian Operations**

In February 1999, we further strengthened our team with the appointment of Don Baird as Chief Financial Officer.

I would also like to welcome Hakan Edstrom to Gimbel Vision's Board of Directors. Mr. Edstrom's extensive industry experience – including the Presidency of Bausch & Lomb Surgical, the world's largest supplier of eyecare products, and previous executive positions at Chiron Vision, Pharmacia Upjohn Inc. and Global Ophthalmic, among others – adds immeasurably to the strength of our Board.

## **NEW FINANCIAL STRENGTH**

During 1998, the Company completed a public offering which raised net proceeds of \$1,536,660 through the sale of 1,545,455 units. Gimbel Vision will use these funds to both provide required funding for existing ventures and continue the expansion of our refractive surgery centres in new and existing markets, with a particular focus on the rapidly expanding US market.

## **NEW GROWTH**

In 1998, our expansion program showed modest results with the addition of three centres in key markets – Laser Ocular in Rio de Janeiro, Brazil; Oregon Laser Eye Center in Eugene, Oregon; and Gimbel Eye Centre in Toronto, Ontario. Gimbel Vision's network now includes 12 centres in six countries with more expansion planned for 1999.

Surgeons at our centres performed 16,182 primary refractive procedures during 1998, an increase of 74 percent over the 9,322 procedures performed during the previous year – further proof that vision correction surgery is fast gaining worldwide acceptance. With our current network of centres, and those that we will add through aggressive yet prudent expansion, Gimbel Vision is ideally positioned to take full advantage of the opportunities presented by market growth.



**Clifford M. James**  
CHAIRMAN OF THE BOARD



## NEW FOCUS

A clear vision requires a clear focus. To achieve this, Gimbel Vision took the regrettable but positive step of divesting itself of two operations in 1998. Our Australian subsidiaries were divested in the third quarter of 1998 due to irreparable operational difficulties encountered with this alliance. We also discontinued the operations of the ophthalmic equipment distribution business unit, formerly known as IC Medical Inc. This divestiture allows us to concentrate on our core business of operating world-class refractive surgery facilities.

## NEW DIRECTIONS

Our strategy of technological innovation stretches back through a long line of firsts. To make the most of our strengths, we continue to support and encourage ongoing innovation which resulted in two significant advances in 1998:

- Our founder and Medical Director, Dr. Howard Gimbel, performed the first Implantable Contact Lens procedure at Gimbel Eye Centre, Calgary. Until recently, he was the only Canadian doctor to have performed this innovative procedure and has since implanted more than 50 lenses.
- Dr. Hamza Khan, our Associate Medical Director of Gimbel Eye Centre, Edmonton, became the first surgeon in western Canada to offer patients the Intacs intrastromal corneal ring segments – a new non-laser vision correction surgery. Dr. Khan and Dr. van Westenbrugge of Gimbel Eye Centre, Calgary are the only surgeons in Alberta trained to perform the ring insertion procedure. As well, Dr. Berman, our Associate Medical Director of Gimbel Eye Centre, Vancouver, is offering this procedure to clients in Vancouver.

## NEW OPPORTUNITIES IN VIEW

With the support of our partners and other stakeholders, and with the dedication of our employees, we have created a strong operational and financial foundation for future growth. Of equal importance, we also strengthened the Company's strategic position as a leader in the refractive surgery sector.

We are committed to building a record of solid growth and profitability by setting clear and strategically sound goals – and then fulfilling them consistently. In 1998, we succeeded in redefining our goals. We made excellent progress in strengthening Gimbel Vision's unique position and capabilities in providing world class ophthalmic surgical services through our strategic alliances with some of the world's best surgeons.

We are also clear about the fundamental business and professional disciplines required within our organization. Gimbel Vision's employees and partners are completely dedicated to delivering excellent results to each Gimbel Vision patient. "Putting the Patient First Worldwide" is more than a mission, it is an everyday reality – and it is the main engine for the continued creation of shareholder value.

Even though we achieved significant market growth in 1998, we are not resting on our laurels. We will continue to build an organization that represents the most sophisticated, most sought-after vision correction services our patients would want. We are actively examining alternatives to expand into new markets and increase the number of centres under management. These may include partnering with exceptional practitioners, business combinations or other strategic initiatives. Providing excellent customer service, our reputation for surgical innovation and our well developed medical, business and operating models will continue to be the keys to our competitive edge. It's rewarding to be first or best in any business. In ophthalmic surgery and the markets where we compete, Gimbel Vision is most often both. This leadership position drives growth and will enable us to consistently meet our financial commitments to our shareholders - to you.

It remains our intention and expectation to grow profitably and add stakeholder value by serving our partners and clients with distinction. Of vital importance are our partners and employees, whose skills, dedication and focus were well-proven once again during our 1998 fiscal year. They work with us not just to make a living, but also to make a difference. To them, I pledge continued opportunity, support and respect.

I thank our partners, employees and Board of Directors for their hard work and assistance. Because of them and because our vision is more clear than ever before, I look forward to 1999 with enthusiasm, confidence and a clear view of continued success.

On behalf of the entire Gimbel Vision team,



Glenn Gimbel,  
President and Chief Executive Officer  
April 6, 1999



# LEGEND FOR WORLD MARKETS

- ① Gimbel Eye Centre  
CALGARY, ALBERTA
- ② Gimbel Eye Centre  
EDMONTON, ALBERTA
- ③ Gimbel Eye Centre  
VANCOUVER, BRITISH COLUMBIA
- ④ Gimbel Eye Centre  
SASKATOON, SASKATCHEWAN
- ⑤ Gimbel Eye Centre  
TORONTO, ONTARIO
- ⑥ Focal Point Vision Center  
SACRAMENTO, CALIFORNIA



- ⑦ Focal Point Laser Center  
LAS VEGAS, NEVADA
- ⑧ Oregon Laser Eye Center  
EUGENE, OREGON
- ⑨ Rutnin-Gimbel Eye Centre  
BANGKOK, THAILAND
- ⑩ Gimbel Guimarães Vision Center  
BELO HORIZONTE, BRAZIL
- ⑪ Laser Ocular Brasil-Canada Ltda  
RIO DE JANEIRO, BRAZIL
- ⑫ Air Force General Hospital  
Gimbel Eye Centre  
BEIJING, CHINA



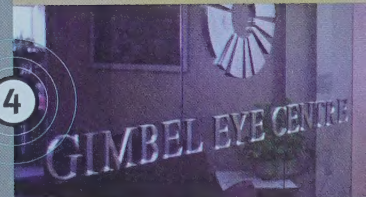
## GIMBEL GLOBAL EXPANSION MAP



CALGARY, ALBERTA



VANCOUVER, BRITISH COLUMBIA



SASKATOON, SASKATCHEWAN



TORONTO, ONTARIO



BANGKOK, THAILAND



○ I want to thank you for the opportunity you offered me to observe when you performed a LASIK procedure on the eyes of my son. Your staff is eminently reassuring and obviously competent to all attentive observers. Your system seems to me to be ideal. I wish I'd handled things that well in my practice. Yours is a standard which all would do well to emulate.

James M. Woodward, MD  
ENGLEWOOD, COLORADO

#### CLEARLY FOCUSED ON STABILITY AND GROWTH

When Gimbel Vision International Inc. became a public company in 1994, we made our strategic position very clear: We were, are, and will be, a company that fully integrates advanced vision correction surgical services with a proven ownership, management and marketing structure to create greater opportunity for both our partners and their clients. This past year, we looked farther into the future and set a renewed strategy for success that we believe will deliver increasing value to our shareholders.

*Vision* – this is the driving force of success. It is an essential catalyst for positive change in ophthalmic care. And it is the defining attribute that sets Gimbel Vision apart from the rest. Gimbel Vision's *vision* began in 1994 when we launched a revolutionary operational concept: a strong, physician-led, patient-centred integrated eye care network based firmly on a proven operational, business and marketing framework.

Expanding our vision, we began partnering with others who share our spirit of innovation, our understanding of the ophthalmic disciplines and our unique way of caring for our patients. Together, with our growing network of partners, we advance our innovative, cost-effective system. We provide superior patient services through excellent clinical practices supported by proven business and marketing concepts. As a result, Gimbel Vision today is a major provider of advanced vision correction surgical procedures in key markets. Still refining our vision. Still moving toward a better future. Still finding new strength in partnerships and new opportunities in targeted markets.

#### GIMBEL VISION'S FINANCIAL VISION

- Grow with our partners in profitable markets
- Improve the Company's cost structure
- Increase operating margins
- Continue to generate strong cash flow
- Invest for future growth

We both honed and expanded our vision during this past year by:

- Divesting a non-core business to provide more resources to focus on what we do best.
- Discontinuing unprofitable centres in Australia.
- Expanding into key markets with the opening of new centres in Toronto, Ontario; Rio de Janeiro, Brazil; and Eugene, Oregon.
- Developing and implementing a new Joint Venture concept to simplify our relationships with Gimbel Vision's partners and to make it easier and more attractive for them to do business with us.
- Creating a customized training program for our employees – Centered on Care – to develop and refine our customer service techniques.

The market for refractive procedures is expanding at a rapid rate – especially in North America, with the strongest growth expected in the United States following the recent approval of laser procedures by the US Food and Drug Administration. It is in the US market that Gimbel Vision will focus its resources in the near term.

The most important avenue to a new patient is an endorsement by a satisfied patient. This is where Gimbel Vision's patient-centred philosophy and practice combines with the skill of our extremely able surgeon-partners to create a decided competitive advantage. Industry research also supports our philosophy by confirming that the expertise, experience and the track record of a surgeon and clinic are the most important decision criteria for refractive vision correction patients. To capitalize on this competitive advantage, Gimbel Vision will expand its advertising and direct-to-consumer marketing programs to develop a higher profile for each centre in the markets we serve.

○ The quality of my vision after having LASIK performed is extraordinary. Although I have done several thousand refractive surgeries myself, I had no emotional understanding of the extraordinary freedom of good vision. Even though I knew intellectually that the surgery was easy and successful, how easy it was and how successful it is is enlightening even to me.

Robert K. Maloney, MD  
LOS ANGELES, CALIFORNIA



Thank you for doing my LASIK eye surgery. It's given me so much more freedom. I no longer have the tunnel vision of "coke-bottle" glasses or even limiting movement of contact lenses. It's truly wonderful. I can see! I can do more things. I have much more freedom. I can't thank you enough!!!

Karen Ylinen

I am most grateful for the care that I received at your hands and the hands of all in your eye centre. I was everywhere treated with care and respect. My vision is better than I had hoped, and the feeling of being free of corrective lenses is wonderful.

William Mitchell-Banks





PRK is truly a remarkable procedure and it's certainly been a liberating experience for me to no longer require my glasses. I'm still adjusting to the fact that I can see without glasses and still feel like a kid with a new toy! I have nothing but positive things to say about the treatment I received from Gimbel Vision and wish to thank you for the many ways you helped me.

Lynda Brown

### CLEARLY COMMITTED TO SURGEON AND PARTNER SATISFACTION

**Whether it is at one of Gimbel Vision's own refractive surgery centres or at any of those operated by our joint venture partners, we are committed to providing excellence in both business management and the practice of medicine.**

Gimbel Vision's network of twelve ophthalmic centres spans six countries. Five of these are wholly owned by Gimbel Vision; the remainder are alliances with well-established, high-quality practitioners.

These joint venture partnerships are integral to Gimbel Vision's growth strategy. Our partner-practitioners are respected members of their medical community, knowledgeable about local business requirements and practices, and have established patient bases. As such, they are perfectly positioned to benefit from Gimbel Vision's innovative refractive surgery, patient care and business management/marketing systems and services – and Gimbel Vision is completely committed to providing timely, precise and comprehensive support to each of its valued partners.

Our sophisticated training programs and proprietary patient care system combined with the high skill level of our surgeons and the use of advanced instrumentation and technologies make Gimbel Vision Centres the ophthalmic centres of choice in each of their markets.

### GIMBEL VISION'S BUSINESS VISION

- Business advice and training
- Physician training
- Staff training
- Equipment access
- Research and outcome analysis
- Human resource practices and support
- Marketing materials and support
- Clinical/surgical efficiencies
- Computerized records systems
- Ophthalmic clinic and surgery scheduling systems

For the near future, Gimbel Vision will focus on expansion opportunities in North America with potential surgeon/partners who share Gimbel Vision's unique vision and passion for excellence.

Gimbel Vision's Care Track™ system is a unique method of providing complete patient care based on sound business and operating principles which maximize the profitability potential of each centre. Developed over the past 35 years at Gimbel Eye Centre, our Care Track™ system includes such components as pre- and post-surgical care, patient counselling, education, scheduling, referrals and all related support services. In keeping with our commitment of *putting the patient first*, the core elements of our Care Track™ system focus on patient comfort and convenience and family involvement.

Laser vision correction is entering a high-growth phase. Gimbel Vision forms partnerships with high-quality surgeons, many of whom are well-established in their markets. This management strategy combines with our reputation for integrity, experience and innovative leadership to achieve strong market penetration. Gimbel Vision centres are seen as 'centres of excellence', and the 'ophthalmic surgery centres of choice' in each market – a unique competitive advantage that sets us apart from the rest.

Thank you for all the courtesies extended to me on my recent testing and surgery. As a stock broker, I find your company very intriguing. I am happy to report I'm not only a satisfied patient, I am now also a stockholder in your fine company.

James Purdy





Skip Rosenbloom, MD  
Partner, Focal Point Vision Center  
Sacramento, California



Carol Crocker, RN  
Manager, Oregon Laser Eye Center  
Eugene, Oregon



Hamza Khan, MD, MPH  
Associate Medical Director  
Gimbel Eye Centre  
Edmonton, Alberta



John Shepherd, MD  
Focal Point Laser Center  
Las Vegas, Nevada



I had LASIK surgery earlier this year and aside from the obvious delight of having 20/20 vision, I was extremely impressed with the manner in which my procedure was conducted from the first interview to the final check-up.

Angela Stauch

## CLEARLY ADVANCING THE ART AND SCIENCE OF VISION SURGERY

**Gimbel Vision is committed to offering world class laser vision correction and other ophthalmic services through our own centres and by partnering with exceptional practitioners who share our core values of service and innovation.**

From our inception, Gimbel Vision has actively pursued a commitment to excellence while advancing the art and science of refractive surgery. Our founder and medical director, Dr. Howard Gimbel, is a pioneer in the field of cataract and refractive surgeries. His innovations and global influence as an educator at the forefront of microsurgical developments have gained him an international reputation as well as numerous awards and honours. Each year, hundreds of visitors travel to Gimbel Eye Centre, Calgary to learn Dr. Gimbel's surgical techniques and unique methods for outpatient treatment and care.

Dr. Gimbel performed his first vision correction surgery 35 years ago. Since then, he and Gimbel Vision's other fine ophthalmic practitioners have acquired vast surgical and operations experience – including more than 35,000 vision correction procedures in Canada alone.

Each year it is our objective to contribute to the advancement of ophthalmology through the development of new techniques and technologies like these we introduced in 1998:

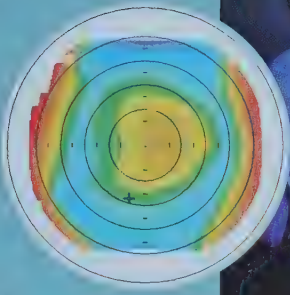
As part of a clinical trial, Dr. Gimbel of Gimbel Eye Centre, Calgary was the first in Canada to perform an Implantable Contact Lens (ICL) procedure. Designed to correct farsightedness and nearsightedness, the ICL can be placed in the eye in a matter of minutes. It is a suture-less and virtually painless outpatient procedure that produces almost immediate results.

Dr. Hamza Kahn of Gimbel Eye Centre, Edmonton, became the first surgeon in Western Canada to offer intrastromal corneal ring segments (ICRS), a new non-laser and completely reversible vision correction surgery that is the first to reshape the cornea by adding material instead of removing tissue. With ICRS, patients have more options. They can take advantage of future advancements in vision correction, exchange the ring segments to accommodate changing vision as they age or return to glasses or contact lenses if they choose.

Gimbel Vision's growing international network has created a synergy through which Gimbel Vision's medical professionals and our partners can rapidly share technical innovations and research developments. This provides both a competitive and patient advantage by enhancing our industry leadership in the provision of specialized surgery services through ophthalmic centres of choice.

It really is an amazing procedure and to be "glasses free" really is a new found freedom that I know I will enjoy. I certainly commend your entire staff, their treatment to me and of course the final result.

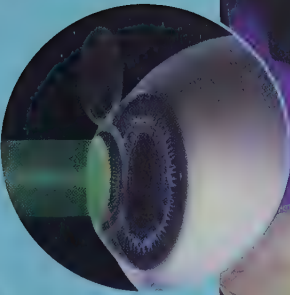
Melissa Hartwell



### CLEARLY SOLVING PROBLEMS

The eye's inability to focus light images is usually caused by such refractive errors as myopia (nearsightedness), hyperopia (farsightedness) or astigmatism. Refractive surgery changes the eye's focusing elements, either the cornea or the lens, to produce clear, natural vision.

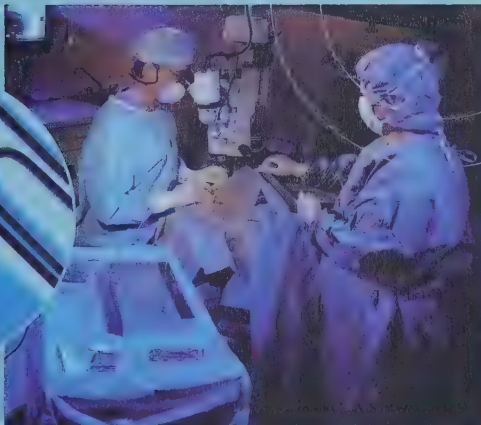
Refractive surgery includes laser surgery (PRK and LASIK), implantable contact lenses or other lenses added to the eye, intrastromal corneal ring segments and refractive lensectomies combined with intraocular lens implantation.



### LASIK & PRK - LASER SURGERIES

Laser surgeries are the most commonly performed refractive surgeries:

- Photorefractive Keratectomy (PRK) uses an excimer laser to gently remove microscopic layers of tissue from the surface of the eye. By modifying the shape of the cornea, light rays can focus correctly within the eye to provide clear vision. The first PRK surgery in Canada was performed at Gimbel Eye Centre, Calgary by Dr. John van Westenbrugge in 1990.
- Laser Assisted In Situ Keratomileusis (LASIK) in which the surgeon turns back a flap of corneal tissue to reveal the inner layers of the cornea and uses an excimer laser to gently remove small amounts of corneal tissue. The flap is then replaced without any need for stitches. LASIK has become the refractive procedure of choice for low degrees of hyperopia and moderate degrees of myopia. The healing time is short and patients have good vision within one or two days following their surgery.

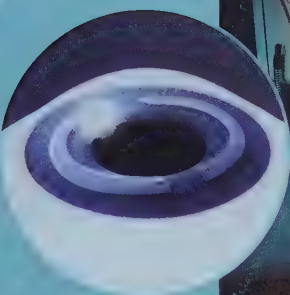


### ICL - IMPLANTABLE CONTACT LENSES

Implantable Contact Lenses are tiny lenses designed to be placed permanently within the eye to correct vision problems. They are manufactured of materials that are biocompatible, so they can rest within the eye without needing any care. Implanting one of these special lenses offers dramatic results that are quite predictable and reversible, if necessary.

### REFRACTIVE LENSECTOMY (not shown)

A refractive lensectomy is a non-laser refractive procedure in which the focusing power of the lens in the eye is altered. During a refractive lensectomy, the natural lens of the eye is removed and replaced by a manufactured lens implant which has been selected to provide clear focusing ability. This alternative is for people with very high levels of nearsightedness or farsightedness and for people in their middle years who may not yet require cataract surgery but would like to be less dependent on their glasses.



### ICRS - INTRASTROMAL CORNEAL RING SEGMENTS

Intrastromal Corneal Ring Segments (ICRS) are tiny plastic half rings placed within the peripheral cornea to change the shape of the cornea and correct nearsightedness. They have established themselves as safe and effective over several years of development and now provide a new corrective option for low myopia.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements presented on pages 17 to 28.

Gimbel Vision International Inc. (the Company) was originally incorporated in June of 1994 as Shooting Star Technologies Inc. (Shooting Star). A reverse takeover effective March 31, 1995 resulted in Shooting Star acquiring all of the shares of I Care Services II Ltd., the operating company for Gimbel Eye Centres in Canada. The Company changed its name to Gimbel Vision International Inc. in June of 1997.

The Company owns or is partnered with vision correction surgery centres across North and South America, South-East Asia and China. Refractive laser eye surgery is performed at all the Company's centres. Set out below is a table indicating the location of the Company's centres and ownership therein as at December 31, 1998.

#### LOCATION

Vancouver, British Columbia, Canada	100%
Calgary, Alberta, Canada	100%
Edmonton, Alberta, Canada	100%
Saskatoon, Saskatchewan, Canada	100%
Toronto, Ontario, Canada	100%
Eugene, Oregon, USA	100%
Las Vegas, Nevada, USA	100%
Sacramento, California, USA	100%
Belo Horizonte, Brazil	51%
Rio de Janeiro, Brazil	51%
Bangkok, Thailand	51%
Beijing, China	51%

Ownership
100%
100%
100%
100%
100%
100%
100%
100%
51%
51%
51%
51%

\* Profit sharing agreement

### OVERVIEW OF CONSOLIDATED RESULTS

Certain key conditions, activities and events had a significant effect on the Company's operations in fiscal 1998:

- Strong growth in consumer awareness of, and demand for, refractive vision correction surgery.
- A significant increase in the Company's refractive eye surgery volumes and related revenues.
- Implementation of a strategy that focuses the Company's resources on its core business.
- Increasing competition in the refractive vision correction market.

Two items had a significant impact on net income reported for the period:

- Divestiture of IC Medical, a non-core business.
- The write-off of the Company's investment in its Australian operation.

Other notable events:

- Investments in two new vision correction surgery centres: Oregon Laser Eye Center, located in Eugene, Oregon; Laser Ocular Brasil – Canada Ltd., located in Rio de Janeiro, Brazil.
- The Company also established a new centre in Toronto as a 100% owned divisional operation in fiscal 1998 which replaced the 1997 sale of a 51% owned Toronto, Ontario centre.



## REFRACTIVE PROCEDURE VOLUMES AND REVENUES

### REFRACTIVE SURGERY VOLUMES



Refractive procedure volumes of 16,182 represent an increase of 74% over the prior year. Refractive procedure volumes at Canadian centres (Vancouver, British Columbia; Calgary, Alberta; Edmonton, Alberta; Saskatoon, Saskatchewan; Toronto, Ontario) totalled 8,726 in 1998 — a 33% increase over 1997. Centres in the developing markets of Vancouver and Toronto performed well and are expected to grow at a rapid rate in 1999. Refractive procedure volumes at the Company's centres based in the United States (Eugene, Oregon; Las Vegas, Nevada; Sacramento, California) have also increased with procedures totalling 3,736 — a 216% increase over the prior year. Management expects the volume of procedures at its United States centres to grow at an increasing rate. Procedures performed at other international centres (Beijing, China; Rio de Janeiro and Belo Horizonte, Brazil; Bangkok, Thailand; Brisbane and MacKay, Australia) totalled 3,720 — a 138% increase over the prior year.

### CONSOLIDATED REVENUE FROM CONTINUING OPERATIONS



The expanded volume of refractive procedures in 1998 generated revenue of \$20.8 million, an increase of 40% over the previous year. 62% of total revenues were generated from Canadian operations (67% in 1997), 20% from operations in the United States (5% in 1997) and 18% from other international locations (28% in 1997). Note 13 in the audited consolidated financial statements provides additional information on the Company's reportable operating segments. It is management's intention to increase procedure volumes and related revenues from existing centres and through the establishment of new centres in selected markets.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EARNINGS FROM CONTINUING OPERATIONS

(\$ thousands)		1997	1996	*1995
Consolidated revenue (see discussion above)	14,930	14,930	6,370	3,100
Expenses				
Operating	10,299	10,299	4,301	2,631
Interest	339	339	110	65
Depreciation and amortization	1,515	1,515	504	301
Total expenses	12,153	12,153	4,915	2,997
Earnings from continuing operations before loss on asset disposals, write-off of investment and equity in associated company	2,777	2,777	1,455	103

\* period from March 31 to December 31, 1995

1998 operating expenses of \$15.3 million (74% of revenue) were higher than the \$10.3 (69% of revenue) recorded in 1997. This increase was due to:

- additional overhead and support costs associated with increased refractive procedure volumes;
- expenses in support of business development activities;
- start-up costs associated with new ventures.

Interest expense increased due to additional financing secured in the latter part of 1997 and during 1998 to acquire equipment for the Company's existing and new centres. Depreciation and amortization has also increased with the acquisition of new assets. Total expenses for 1998 at \$17.9 million were 86% of revenues as compared to \$12.2 million, 81% of revenues in the prior year.

Earnings from continuing operations before loss on asset disposals, write-off of investment and equity in associated company were \$3.0 million in 1998, a 7% increase over 1997. This increase is attributable in part to the higher revenue generated in 1998 against which higher total expenses were incurred to exploit existing growth opportunities and fund planned market expansion.

### NET EARNINGS

(\$ thousands)		1997	1996	*1995
Earnings from continuing operations before loss on asset disposals, write-off of investment and equity in associated company	2,777	2,777	1,455	103
Earnings from continuing operations before taxes and non-controlling interest	2,675	2,675	1,488	51
Earnings from continuing operations	1,288	1,288	694	30
Loss from discontinued operations, net of tax	(276)	(276)	(63)	(25)
Net earnings	1,012	1,012	631	5

\* period from March 31 to December 31, 1995



Although earnings of \$3.0 million from continuing operations before losses on disposals and write-off of investments and equity in associated company in 1998 were higher than in 1997, recorded losses of \$161,000 on the disposal of assets and a \$212,000 write-off of investment resulted in \$2.7 million of earnings from continuing operations before taxes and non-controlling interest in 1998 which was essentially unchanged from 1997. The write-off of investment in 1998 recognized the divestiture of the Company's Australian based refractive eye surgery centres during the third quarter of the 1998 year. This investment was not a value added operation for the Company in either the short or long term.

Earnings from continuing operations of \$899,000 in 1998 were lower than the \$1.3 million recorded in 1997 due to:

- An increase in current taxes: The improved results of Canadian operations resulted in higher taxes which could not be offset by tax losses from international operations.
- In 1998 the Company reflected a reduction in earnings attributable to non-controlling interests whereas in 1997 the Company recorded a recovery from losses attributable to non-controlling interests.

After deducting an \$897,000 and \$276,000 after-tax loss from discontinued operations in 1998 and 1997 respectively, net earnings for 1998 were \$2,345 as compared to \$1.0 million in 1997. The after-tax loss from discontinued operations recognizes the divestiture of the Company's IC Medical business unit in the third quarter of 1998. This business was unprofitable and was not consistent with the Company's long term strategy and was, therefore, disposed of to allow a greater focus of the Company's resources on its core business of establishing vision correction surgery centres.

## SHARE CAPITAL

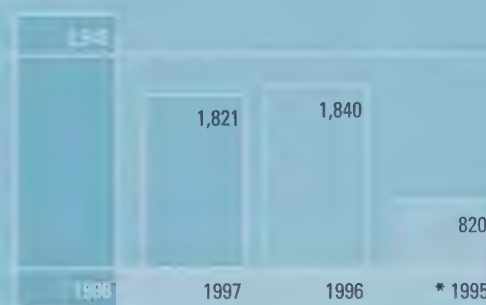
1.5 million shares and 772,727 common share purchase warrants were issued on January 21, 1998 for net consideration of \$1.5 million. The proceeds of this offering are being used to finance ongoing investments and new vision correction surgery centre opportunities.

## LIQUIDITY AND FINANCIAL RESOURCES

### CASH PROVIDED BY CONTINUING OPERATIONS

(\$ thousands)

\* period from March 31 to December 31, 1995



Cash generated from continuing operations of vision correction surgery centres continues to be strong, increasing to \$2.5 million in 1998 from \$1.8 million in 1997. These cash resources are used to finance existing operations and future expansion efforts.

## FINANCIAL RESOURCES

(\$ thousands)

	1998	1997	1996	1995
Cash and bank indebtedness	1,477	1,620	462	(66)
Other current assets	1,620	3,062	2,071	677
Total current assets	3,097	4,682	2,533	611
Current liabilities	5,775	5,099	3,461	1,400
Working Capital	722	(417)	(928)	(789)
Long term debt and lease obligations	1,245	3,643	1,506	689
Shareholder's equity	5,170	3,596	1,326	567
Debt to equity ratio	0.82	1.01	1.14	1.22



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management continues to monitor and where possible improve the Company's working capital position and debt to equity ratio. Inventory and accounts receivable included in current assets, and accounts payable recorded in current liabilities, have declined as a result of the divestiture of IC Medical.

### **BUSINESS ENVIRONMENT AND RISKS**

#### **Competitive Environment**

As the market for refractive eye surgery continues to expand at an aggressive rate, opportunities and competition will both increase. The competitive environment has intensified over the past year with significant price compression occurring in certain regions of North America. Due to the Company's cost structure, its commitment to providing the highest level of patient care and the reputation of surgeons with which it forms alliances, management is of the opinion that the Company is well-positioned to maintain a leadership position in its various geographic markets.

#### **Technology**

As is the case in any technology driven industry, the Company faces the risk that further scientific and/or technological advances may result in the Company's processes, products, systems or services being rendered obsolete. However, this risk is mitigated significantly by the Company's relationship with Gimbel Eye Centre in Calgary, Alberta, Canada, where laser eye surgery was pioneered. As a result of this relationship, the Company continues to be at the forefront of technology. Gimbel Eye Centre's commitment to research, and the leadership provided by Dr. H.V. Gimbel, the Company's Medical Director, provide the Company with a distinct competitive advantage in the refractive eye surgery market.

#### **Year 2000**

The widespread use of computer programs that rely on a 2-digit date to perform computations and other functions may cause computer systems to malfunction in the Year 2000. This would in turn lead to business delays and disruptions in Canada and internationally. The Company has performed an assessment of the impact of these issues both in respect of its internal systems and those of its partners and customers. Based on these evaluations, the Company does not believe that its operations will be significantly affected by the Year 2000.

#### **Outlook**

The Company will continue to focus on creating value for its shareholders by developing successful and innovative ophthalmic surgery centres of choice. This may include partnering with exceptional practitioners, business combinations or other strategic initiatives. The refractive eye surgery centres that the Company owns, or is affiliated with, will focus on providing the best patient care at an affordable cost.

The Company has an international reputation for maintaining the highest professional standards while operating patient focused, efficient, high quality and high volume ophthalmic surgery centres. The Company is committed to staying on the leading edge of research activities in the field of refractive eye surgery and partnering with surgeons who meet the standards set by the Company – and it is from this solid foundation that the Company will continue to grow and prosper.

Although PRK and LASIK refractive eye surgery procedures have been available for some time in many countries, including Canada, the United States Food and Drug Administration only recently approved the use of the excimer laser for myopia (October 1995) and for hyperopia (November 1998). Since then, market growth in the United States has been strong with a high percentage of the population diagnosed with some type of refractive problem. As awareness and acceptance of refractive procedures continues to grow, the Company will be presented with increasing opportunities to expand its operations. Accordingly, although other international opportunities that arise in the field of refractive eye surgery will be investigated if they present potential for profitable growth, the Company's main focus will be on the North American market where the projected growth of the refractive eye surgery industry is strongest.

Given the promising outlook for the refractive eye surgery market combined with the Company's strategic direction and competitive strengths, management is confident that the Company will generate profitable growth and increasing returns for its shareholders.



## MANAGEMENT'S RESPONSIBILITY

The accompanying Consolidated Financial Statements and information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the Consolidated Financial Statements.

Management has developed and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. Management believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements.

The Board of Directors carries out its responsibility for the financial statements through its Audit Committee, which consists entirely of outside members of Gimbel Vision International Inc.'s (the "Company") Board of Directors. The Audit Committee meets periodically throughout the year with management and the external auditors to discuss and review audit and financial matters, and recommends the financial statements to the Company's Board of Directors for approval. The Company's external auditors have full and free access to the Audit Committee.

KPMG, the Company's external auditors, have audited the Company's Consolidated Financial Statements in accordance with generally accepted auditing standards and have provided an independent professional opinion thereon.



Glenn Gimbel  
President and Chief Executive Officer

Calgary, Alberta  
March 12, 1999



Don Baird  
Chief Financial Officer

## AUDITORS' REPORT

We have audited the consolidated balance sheets of Gimbel Vision International Inc. as at December 31, 1998 and 1997 and the statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
Calgary, Canada  
March 12, 1999



# CONSOLIDATED BALANCE SHEETS

December 31, 1998 and 1997

## Assets

### Current assets:

Cash	\$ 1,877,242	\$ 1,868,852
Accounts receivable	1,645,836	1,645,836
Inventory	1,270,498	1,270,498
Prepaid expenses	146,289	146,289

Investment (note 2(d))

Deferred development costs (note 5)

Deferred income taxes

Capital assets (note 6)

Goodwill

## Liabilities and Shareholders' equity

### Current liabilities:

Bank indebtedness (note 7)	\$ 249,013	\$ 249,013
Accounts payable and accrued liabilities	3,136,359	3,136,359
Income taxes payable	568,417	568,417
Current portion of obligations under capital lease (note 8)	1,267,546	1,267,546
Current portion of long-term debt (note 9)	126,192	126,192

Obligations under capital lease (note 8)

Long-term debt (note 9)

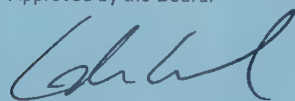
Non-controlling interest

### Shareholders' equity:

Capital stock (note 10)	963,785	963,785
Special warrants (note 10)	974,585	974,585
Cumulative translation adjustment	10,609	10,609
Retained earnings	1,647,390	1,647,390

See accompanying notes to consolidated financial statements.

Approved by the Board:



Glenn Gimbel, Director



Robert McInnes, Director

# CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31, 1998 and 1997

	1998	1997
Revenues:		
Facility fees	\$ 14,929,924	\$ 14,929,924
Expenses:		
Operating	10,298,622	10,298,622
Interest on long-term obligations	339,044	339,044
Depreciation and amortization	1,515,143	1,515,143
	12,152,809	12,152,809
Earnings from continuing operations before the undernoted items	2,777,115	2,777,115
Loss on disposal of capital assets	(45,551)	(45,551)
Loss on write off of investment (note 3)	—	—
Equity in earnings (losses) of associated company	(56,556)	(56,556)
Earnings from continuing operations before income taxes and non-controlling interest	2,675,008	2,675,008
Income taxes (note 11):		
Current	1,626,627	1,626,627
Deferred	(30,000)	(30,000)
	1,596,627	1,596,627
Earnings from continuing operations before non-controlling interest	1,078,381	1,078,381
Non-controlling interest	209,720	209,720
Earnings from continuing operations	1,288,101	1,288,101
Loss from discontinued operations, net of income taxes (note 4)	(276,537)	(276,537)
Net earnings	1,011,564	1,011,564
Retained earnings, beginning of year	635,826	635,826
Retained earnings, end of year	\$ 1,647,390	\$ 1,647,390
Earnings from continuing operations per common share:		
Basic	\$ 0.06	\$ 0.06
Fully-diluted	\$ 0.05	\$ 0.05
Net earnings per common share	\$ 0.05	\$ 0.05

See accompanying notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1998 and 1997	1998	1997
Cash provided by (used in):		
Operations:		
Earnings from continuing operations	\$ 1,288,101	\$ 1,288,101
Items not involving cash:		
Depreciation and amortization	1,515,143	1,515,143
Loss on disposal of capital assets	45,551	45,551
Deferred income taxes	(30,000)	(30,000)
Equity in losses (earnings) of associated company	56,556	56,556
Non-controlling interest	(209,720)	(209,720)
Loss on write-off of investment (note 3)	—	—
	2,665,631	2,665,631
Changes in non-cash operating working capital relating to continuing operations	(844,269)	(844,269)
Cash provided by continuing operations	1,821,362	1,821,362
Cash provided by discontinued operations (note 4)	235,865	235,865
	2,057,227	2,057,227
Financing:		
Increase in capital lease obligations	3,250,114	3,250,114
Repayments of capital lease obligations	(1,383,145)	(1,383,145)
Increase in long-term debt	—	—
Repayment of long-term debt	(89,434)	(89,434)
Proceeds on issuance of special warrants (net of issue costs of \$95,970)	974,585	974,585
Issuance of shares to acquire subsidiary	258,300	258,300
Proceeds on issuance of share capital, net of share issue costs	15,750	15,750
	3,026,170	3,026,170
Investments:		
Acquisition of businesses, net of cash (note 2)	(797,653)	(797,653)
Investment	(339,883)	(339,883)
Deferred development costs	(110,529)	(110,529)
Additions to capital assets	(2,944,981)	(2,944,981)
Proceeds on disposal of capital assets	251,877	251,877
	(3,941,169)	(3,941,169)
Foreign exchange	15,375	15,375
Increase in cash position	1,157,603	1,157,603
Cash position, beginning of year	462,236	462,236
Cash position, end of year	\$ 1,619,839	\$ 1,619,839

Cash position is defined as cash, term deposits and bank indebtedness.

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

Gimbel Vision International Inc. (the "Company") is a public company that develops and operates ophthalmic surgery centres across North and South America, South East Asia and China. The Company provides ophthalmic practitioners with the necessary expertise and experience required to operate patient focused, efficient, high quality and high volume ophthalmic surgery centers.

## 1. Significant accounting policies:

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

### (a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and its subsidiaries.

The Company's investment in a U.S. joint venture has been accounted for using the proportionate consolidation method, whereby the Company's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

The Company's investment in a significantly influenced company has been accounted for using the equity method of accounting.

### (b) Inventory:

Inventory is valued at the lower of cost or replacement cost.

### (c) Capital assets:

Capital assets are stated at historical cost. Depreciation of furniture and equipment is provided on a declining balance basis at rates from 20% to 30% which allocate the cost of the assets over their estimated economic lives. Leasehold improvements are amortized on the straight-line basis over 5 years. Equipment under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease. Maintenance and repair costs are expensed as incurred.

### (d) Deferred development costs:

Deferred development costs are comprised of:

- (i) educational and promotional expenses and professional fees incurred in developing the Company's business; and
- (ii) other expenses incurred before the opening of new eye surgery centers.

The pre-opening period begins when expenditures are first incurred and ends with the commencement of operations of the related centre. Amortization of costs is provided over the anticipated period of economic benefit which is estimated to be three years from the centre's commencement of operations.

### (e) Goodwill:

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the identifiable assets acquired and is amortized over 5 years. At each balance sheet date management assesses the appropriateness of the goodwill balance, taking into consideration any events and circumstances which might have impaired the fair value.

### (f) Revenue recognition:

The Company recognizes revenue for services at the time the services are provided.

### (g) Translation of foreign currencies:

The assets and liabilities of foreign operations, all of which are self-sustaining, are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average exchange rates prevailing during the period. The resulting gains and losses are accumulated in the cumulative translation adjustment in shareholders' equity.

### (h) Income taxes:

The Company follows the deferral method of tax allocation accounting. Under this method, timing differences between accounting and taxable income result in the recognition of deferred income tax balances.

### (i) Per share data:

Earnings per share have been calculated using the weighted average number of common shares outstanding during the period. Fully-diluted earnings per share are calculated using the weighted average number of common shares outstanding during the year assuming that all outstanding stock options and common share purchase warrants were exercised from the beginning of the year. Fully-diluted earnings per share are not reported if they are anti-dilutive.

### (j) Comparative figures:

Certain comparative figures have been restated to conform to the presentation adopted in the current year.

## 2. Business acquisitions and dispositions:

- (a) On January 1, 1998 the Company acquired 50.4% of the issued and outstanding Class A shares of Oregon Laser Eye Center ("OLEC"). OLEC is engaged in the provision of refractive eye surgery services. The acquisition has been accounted for by the purchase method and the results of operations have been included from the effective date of acquisition being January 1, 1998.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

Details of the aggregate consideration given and the fair values of net assets acquired are as follows:

Consideration:	
Cash	\$ 42,888
Net assets acquired, at fair values:	
Capital assets	\$ 19,008
Goodwill	\$ 18,217
	\$ 37,225
Less:	
Non-cash working capital deficiency	\$ 27,712
Long-term debt	\$ 13,207
	\$ 40,919
Net assets before cash position	\$ 73,217
Cash position	\$ 38,481
Net assets acquired	\$ 111,698

(b) Pursuant to an agreement signed March 5, 1997, Gimbel Guimarães Vision Centers S/C Ltda. ("GGVC") was created. The Company holds 51% of the issued and outstanding common shares of GGVC.

Effective January 18, 1998, GGVC signed an agreement resulting in the formation of Laser Ocular Brasil-Canada Ltda., ("LOBC") in which GGVC subscribed for 51% of the issued and outstanding common shares for \$131,000. LOBC operates an eye surgery centre in the Sao Jose Hospital in Rio de Janeiro.

(c) On February 13, 1997, the Company acquired 75% of the issued and outstanding common shares of Pacific Eye Centre (Australia) Pty. Ltd. and its wholly owned subsidiaries, Pacific Eye Centre (Brisbane) Pty. Ltd. and Pacific Eye Centre (Mackay) Pty. Ltd. These companies were engaged primarily in the provision of cataract and refractive eye surgery services.

On September 1, 1997, the Company acquired 52.5% of the issued and outstanding common shares of Sacramento Refractive Laser Association (LLC). This company is engaged in the provision of refractive eye surgery services in Sacramento, California. The acquisition has been accounted for by the purchase method and the results of operations have been included from the effective date of acquisition.

Details of the aggregate consideration given and the fair values of net assets are as follows:

	P&O	Sacramento	Total
Consideration:			
Cash	\$ 218,881	\$ 385,309	\$ 604,170
Common shares	\$ 258,300	—	258,300
	\$ 477,181	\$ 385,309	\$ 862,470
Net assets acquired, at fair values:			
Other assets	\$ 18,255	\$ 18,255	\$ 18,255
Capital assets	\$ 1,506,360	176,930	1,506,360
Goodwill	\$ 154,809	154,809	321,405
	\$ 1,679,424	349,994	1,846,020
Less:			
Non-cash working capital deficiency	\$ 39,693	7,972	39,693
Long-term debt	\$ 1,008,674	—	1,008,674
	\$ 1,048,367	7,972	1,048,367
Net assets before cash position	\$ 631,057	342,022	797,653
Cash position	\$ 64,817	43,287	64,817
Net assets acquired	\$ 695,874	\$ 385,309	\$ 862,470

(d) On January 17, 1997, the Company signed an agreement to acquire a 45% interest in a new laser refractive centre in Thailand.

	1997
Balance, beginning of year	\$ —
Cash investment and advances	339,883
Equity in earnings (losses)	(56,556)
Distribution received	—
	283,327
Balance, end of year	\$ 283,327

(e) Effective September 22, 1997, the Company sold its 51% interest in Gimbel Eye Centre-Toronto Inc. for nominal consideration and the repayment in full of a shareholder loan in the amount of \$623,000. No gain or loss has been recognized on the sale.

### 3. Loss on write-off of investment:

Effective June 15, 1998, the Company's Australian subsidiaries were placed into Voluntary Administration, resulting in the liquidation of the subsidiaries assets and repayment of liabilities. The estimated shortfall of assets over liabilities as at June 15, 1998, as well as the estimated loss resulting from the write off of the investment and advances made to the subsidiaries, has been recorded by the Company in the year ended December 31, 1998. The revenues and expenses of the Australian subsidiaries for the period to June 15, 1998, have been reflected in the appropriate revenue and expense classifications in the statement of earnings.

### 4. Discontinued operations:

Effective September 15, 1998, the Company discontinued the operations of its ophthalmic equipment distribution division. As at December 31, 1998, the estimated loss on discontinuance has been fully provided for in the Company's accounts.

The following summarizes the results attributable to discontinued operations:

	1997
Revenue	\$ 2,875,167
Loss from discontinued operations	\$ 499,164
Loss from wind-up of discontinued operations	—
Loss before income taxes	499,164
Income tax recovery	222,627
	\$ 276,537

Amounts applicable to the ophthalmic equipment distribution division included in the consolidated balance sheet at December 31, 1998 are recorded at the lower of cost and estimated net realizable value.

	1997
Current assets	\$ 220,900
Current liabilities	(314,031)
Net liabilities	\$ (93,131)

### 5. Deferred development costs:

	1997
Deferred development costs	\$ 555,721
Less: Accumulated amortization	(222,067)
	\$ 333,654



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

### 6. Capital assets:

1998	Cost	Accumulated depreciation	Net book value
Laser and medical equipment	\$ 1,981,445	\$ 2,657,426	\$ 1,163,957
Furniture and equipment	819,300	187,738	651,630
Leasehold improvements	718,362	179,295	589,067
	<b>\$ 11,319,177</b>	<b>\$ 2,954,521</b>	<b>\$ 8,364,654</b>

1997	Cost	Accumulated depreciation	Net book value
Laser and medical equipment	\$ 7,409,123	\$ 1,627,905	\$ 5,781,218
Furniture and equipment	842,734	162,903	679,831
Leasehold improvements	442,914	30,286	412,628
	<b>\$ 8,694,771</b>	<b>\$ 1,821,094</b>	<b>\$ 6,873,677</b>

Net book value of capital assets under capital leases at December 31, 1998 amounted to \$3,421,656 (1997 - \$4,316,191).

### 7. Bank indebtedness:

	1998	1997
Operating loan to a maximum of \$225,000 bearing interest at bank prime rate plus 1% on demand	\$ -	\$ 165,000
Cheques issued in excess of funds on deposit	-	84,013
	<b>\$ -</b>	<b>\$ 249,013</b>

Bank indebtedness is secured by general security agreements covering certain assets of the Company, guarantees and postponement of claims signed by the Company.

### 8. Obligations under capital lease:

Capital leases have implicit rates of interest ranging from variable rates of prime plus 1% to 21/2%, and fixed rates of 7.4% to 13.75%. Interest paid on capital leases during the year was \$427,246 (1997 - \$291,196). Future minimum lease payments for the next five years, including implicit interest, are as follows:

1999	\$ 1,086,771	
2000	1,207,420	
2001	1,008,710	
2002	678,710	
2003	131,200	
	<b>1,852,811</b>	
Less: implicit interest	<b>500,506</b>	
	<b>\$ 1,352,305</b>	

9. Long-term debt:

	1998	1997
Bank term loan, repayable in monthly installments of \$24,747 plus interest at 7.79% to December 2003	\$ 399,430	\$ 393,767
Bank term loan, repayable in monthly installments of \$12,500 plus interest at bank prime rate plus 3/4% to August 2003	900,000	—
Bank term loan, repayable in monthly installments of \$954 including interest at bank prime rate plus 1% to December 1999	20,527	20,477
	414,244	414,244
Less: current portion	226,192	126,192
	\$ 288,052	\$ 288,052

The Company has also guaranteed the debt of a joint venture partner in the amount of \$939,430.

Interest paid on long-term debt during the year was \$79,047 (1997 – \$47,848). Loans are secured by certain capital assets. Principal repayments for the next five years are as follows:

1999	\$ 226,192
2000	277,104
2001	277,104
2002	277,104
2003	198,595

10. Share capital:

- (a) Authorized:  
 Unlimited number of voting Common Shares without nominal or par value  
 Unlimited number of non-voting Class A Preferred Shares without nominal or par value
- (b) Issued:

	Authorized at Issuance	Amount	Number of Warrants	Amount
Common shares:				
Balance, December 31, 1996	13,720,320	\$ 688,725	—	\$ —
Exercise of options for cash	10,000	15,750	—	—
Issued on acquisition of subsidiary	910,000	250,290	—	—
Special warrant issue	—	—	1,000,000	\$10,000
Balance, December 31, 1997	20,043,850	963,785	1,000,000	974,585
Exercise of special warrants (note 10(d))	1,100,000	974,585	(1,000,000)	(974,585)
Issued from Treasury (note 10(e))	1,545,455	1,536,660	—	—
Exercise of options for cash	21,000	4,200	—	—
Exercise of common share purchase warrants for cash	550	825	—	—
Balance, December 31, 1998	22,710,855	\$ 2,480,055	—	\$ —



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

### 10. Share capital (continued):

#### (c) Stock option plan:

As at December 31, 1998, pursuant to the Company's stock option plan, the Company has outstanding options to acquire 2,166,750 (December 31, 1997 – 1,917,750) common shares at prices ranging from \$0.20 to \$1.11 per share. The options expire at varying dates from November 1999 to November 2003. During 1998, 100,000 (1997 – 50,000) options were cancelled.

#### (d) Special warrants:

Effective August 26, 1997, pursuant to a private placement, the Company issued 1,000,000 special warrants for consideration of \$974,585, net of issue costs of \$95,970. Each special warrant entitled the holder to acquire one unit comprised of 1.1 common shares and one common share purchase warrant, Series A, exercisable at \$1.50. The special warrants were all exercised during 1998. The common share purchase warrants, Series A, were to expire on August 26, 1998, and have been extended to August 26, 1999. As of December 31, 1998, 1,000,000 common share purchase warrants, Series A, were outstanding.

#### (e) Common share purchase warrants:

On January 21, 1998, the Company closed a public offering to qualify the issuance of 1.1 million common shares upon the exercise of special warrants, as well as issuing an additional 1,545,455 units at \$1.10 per unit. Each unit is comprised of one common share and one half common share purchase warrant, with each whole warrant exercisable into one common share at a price of \$1.50. The warrants were to expire on August 26, 1998, and were extended to August 26, 1999. Proceeds from this offering were \$1,700,000 before expenses of \$35,840 and commissions of \$127,500. As of December 31, 1998, 772,177 common share purchase warrants were outstanding.

### 11. Income taxes:

Income tax expense differs from the amounts which would be obtained by applying the Canadian statutory income tax rate to the respective year's earnings before taxes. These differences are as follows:

	1998	1997
Canadian statutory tax rate	44.6%	44.6%
Provision based on effective rate applied to earnings from continuing operations	\$ 1,196,904	\$ 1,193,127
Increase (decrease) in income tax resulting from:		
Unrecognized benefit of losses of subsidiaries	447,284	434,500
Recognized benefit of losses of subsidiaries	(585,264)	—
Loss on write-off of investment	5,000	—
Non-controlling interest	(5,180)	(93,500)
Non-deductible costs	65,600	62,500
Differences in foreign tax rates	(5,000)	—
	403,500	403,500
	\$ 1,596,627	\$ 1,596,627

At December 31, 1998, the Company had losses for income tax purposes and available tax pools and deductions in excess of book assets aggregating approximately \$1.4 million (1997 – \$1.2 million). A deferred income tax asset of \$64,000 has been recognized in the financial statements. Under current legislation the tax losses of \$1.3 million do not expire prior to 2003. Approximately \$675,000 million of these losses were incurred in jurisdictions outside Canada.

### 12. Related party transactions:

#### (a) The Company made the following payments to its majority shareholder:

	1998	1997
Management fees	\$ 26,750	\$ 26,750
Rent	440,097	440,097
Medical supplies	98,864	98,864

The Company paid rent of \$327,000 (1997 – \$570,000) to a minority shareholder. The Company sold equipment for \$28,870 (1997 – \$nil) to a company controlled by one of its Directors. These transactions are considered to be in the normal course of operations and have been measured at the exchange amount of consideration established and agreed to by the related parties.

(b) A balance of \$70,075 (1997 – \$423,240) included in accounts receivable is due from the Company's majority shareholder. A balance of \$153,375 (1997 – \$287,252) included in accounts payable and accrued liabilities is due to a minority shareholder.

### 13. Segmented information:

The Company's reportable operating segments are geographic regions all of which operate laser eye surgery centres. Each segment operates independently and within differing regulatory regions, and requires different marketing strategies specific to their region.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The loss on discontinued operations has been reflected in the segment profit for Canada, and is not reflected in the detailed revenue and expense classifications. For comparative purposes, items relating to the discontinued operations have been similarly reflected in 1997 segmented information.

The segmented information includes the results of the Company's Australian subsidiaries up to June 15, 1998 being the date they were placed into Voluntary Administration.

#### 1998

(In thousands of dollars)

	Canada	United States	Brazil	Australia	Total
Revenue	\$ 10,042	\$ 1,150	\$ 212	\$ 2,396	\$ 13,799
Earnings (loss) before the undernoted items	1,000	25	100	110	1,235
Depreciation and amortization	1,188	25	10	107	1,330
Interest expense	110	80	-	24	214
Loss (gain) on capital assets disposal	(100)	140	-	-	40
Non-controlling interest	-	10	18	(50)	18
Income tax expense	1,000	10	-	-	1,010
Segment profit (loss)	\$ 100	\$ 12	\$ 100	\$ (40)	\$ 172
Segment assets	\$ 10,042	\$ 1,150	\$ 212	\$ 2,396	\$ 13,799

#### 1997

(In thousands of dollars)

	Canada	United States	Brazil	Australia	Total
Revenue	\$ 9,960	\$ 814	\$ -	\$ 4,156	\$ 14,930
Earnings before the undernoted items	4,075	213	-	11	4,299
Interest expense	140	90	-	109	339
Depreciation and amortization	872	213	-	430	1,515
Loss on capital assets disposal	-	46	-	-	46
Non-controlling interest	-	(124)	-	(86)	(210)
Income tax expense	1,597	-	-	-	1,597
Segment profit (loss)	\$ 1,466	\$ (12)	\$ -	\$ (442)	\$ 1,012
Segment assets	\$ 9,298	\$ 1,567	\$ -	\$ 1,870	\$ 12,735



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

### 14. Investment in joint venture:

The following is a summary of the Company's proportionate share of the financial position, operating results, and cash flows of its U.S. joint venture investment:

	1998	1997
<b>Assets:</b>		
Current assets	\$ 231,841	\$ 101,915
Capital assets	931,923	778,930
Other assets	16,442	16,591
	\$ 1,180,206	\$ 897,436
<b>Liabilities and equity:</b>		
Current liabilities	\$ (197,789)	\$ 676,555
Long-term debt	779,868	277,624
Retained earnings (deficit)	202,549	(56,743)
	\$ 1,180,206	\$ 897,436
<b>Revenues</b>	\$ 1,314,296	\$ 583,815
<b>Expenses:</b>		
Costs and expenses	320,859	392,864
Depreciation	163,698	134,445
Interest and bank charges	70,447	40,333
	\$ 554,904	567,642
<b>Net earnings</b>	\$ 759,392	\$ 16,173
<b>Cash provided by (used in):</b>		
Operations	\$ (105,817)	\$ 169,017
Financing	499,105	169,972
Investments	(250,268)	(338,764)
	\$ 143,020	\$ 225

### 15. Financial instruments:

The carrying values of cash and bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their fair values. The fair value of obligations under capital leases and long-term debt included in the consolidated balance sheet are not considered to be materially different from their carrying value.

### 16. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**CORPORATE GOVERNANCE**

Gimbel Vision International Inc. is committed to maintaining high standards of corporate governance. A summary of the responsibilities of the governing bodies of the Company is contained in the Company's Management Information Circular.

Gimbel Vision's Board of Directors hold ultimate responsibility for the corporate governance of the Company. The Company supports corporate governance through practices directed at the responsibilities, composition, and independence of the Board and its committees.

**BOARD OF DIRECTORS****CLIFFORD M. JAMES 2, 3**

Chairman and Director  
Calgary, Alberta  
President and Chief Executive Officer, TVI Pacific Inc.

**GLENN GIMBEL 2, 3**

President, Chief Executive Officer, and Director  
Calgary, Alberta

**HAKAN EDSTROM 1**

Director  
Valencia, California  
President, Bausch & Lomb  
Surgical/Pharmaceuticals,  
a division of Bausch & Lomb Incorporated

**HOWARD V. GIMBEL, MD 3**

Medical Director and Director  
Calgary, Alberta  
Medical Director and Senior Surgeon,  
Gimbel Eye Centre

**JUDITH A. GIMBEL 2, 3**

Director  
Calgary, Alberta  
Chief Executive Officer, I Care Services Ltd.

**BRUCE S. MALLER 1, 2**

Director  
Incline Village, Nevada  
President, The BSM Consulting Group

**ROBERT McINNES 1**

Director  
Calgary, Alberta  
Principal, The Osborne Group

- 1 Member of the Audit Committee
- 2 Member of the Compensation Committee
- 3 Member of the Executive Committee

**OFFICERS****GLENN GIMBEL**

President and Chief Executive Officer

**DON BAIRD**

Chief Financial Officer

**GEORGINA GODFREY**

Vice President, International Operations

**ROBERT MILLAR**

Vice President, Corporate Development

**KAREN GIMBEL**

Vice President, Public Affairs

**JANELLE WELLER**

Vice President, Canadian Operations

**ANNETTE STANWICK**

Vice President, Medical Affairs

**DIANE PHILLIPS**

Corporate Secretary

**INVESTOR RELATIONS  
CONTACT****DIANE PHILLIPS**

Corporate Secretary and  
Coordinator, Investor Relations  
Tel: 403.202.3323  
Fax: 403.202.3322  
e-mail: dphillip@gimbelvision.com

**INTERNET ADDRESS**

[www.gimbelvision.com](http://www.gimbelvision.com)

**TRANSFER AGENT****MONTREAL TRUST COMPANY OF CANADA**

Calgary, Alberta  
Toronto, Ontario

Contact for shareholder services

**MONTREAL TRUST COMPANY OF CANADA**

600, 530 – 8 Avenue SW  
Calgary, Alberta T2P 3S8  
Tel: 403.267.6800  
Fax: 403.267.6529

**AUDITORS****KPMG CHARTERED ACCOUNTANTS**

Calgary, Alberta

**STOCK EXCHANGE LISTING****ALBERTA STOCK EXCHANGE**

Stock Symbol: GBV

**ANNUAL GENERAL  
MEETING OF SHAREHOLDERS**

**TUESDAY, JUNE 15, 1999, 4:00 PM**

Market Mall Professional Building  
Main Floor, Suite 122  
4935 – 40 Avenue NW  
Calgary, Alberta  
Tel: 403.202.3320  
Fax: 403.202.3322











Gimbel Vision International Inc.